MN

Annual Report 1950

LRB&M

THE GRAND UNION COMPANY

50 CHURCH STREET, NEW YORK

OFFICERS

LANSING P. SHIELD, PRESIDENT

HUGH J. DAVERN, VICE PRESIDENT

GARLAND MILBURN, VICE PRESIDENT

JOHN K. DAVENPORT, VICE PRESIDENT

LOUIS C. WADMOND, VICE PRESIDENT

LLOYD W. MOSELEY, SECRETARY

THOMAS C. BUTLER, TREASURER

DIRECTORS

THOMAS C. BUTLER
JOHN K. DAVENPORT
HUGH J. DAVERN
LOUIS A. GREEN
IRVING KAHN
E. CLARK MAUCHLY
RAY MORRIS
JOHN E. RAASCH
THOMAS J. SHANAHAN
LANSING P. SHIELD

TRANSFER AGENT

THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK
11 BROAD STREET NEW YORK, N. Y.

REGISTRAR

BANK OF THE MANHATTAN COMPANY
40 WALL STREET NEW YORK, N. Y.

HIGHLIGHTS OF THE YEAR

Sales of $161,007,128 and profits of $2,181,890 after taxes.

18 new super markets opened, and 9 additional ones completely renovated and modernized.

Contracts signed and construction started on new general office building in East Paterson, N. J.

Company's metropolitan New York warehouse in Carlstadt, N. J., doubled in size.

Action initiated to create new cumulative 4½% preferred stock issue and distribute this to holders of common stock as stock dividend.

The

GRAND UNION *Story*

1950 IN RETROSPECT

1951 IN PROSPECT

LANSING P. SHIELD
PRESIDENT

A LETTER TO THE STOCKHOLDERS

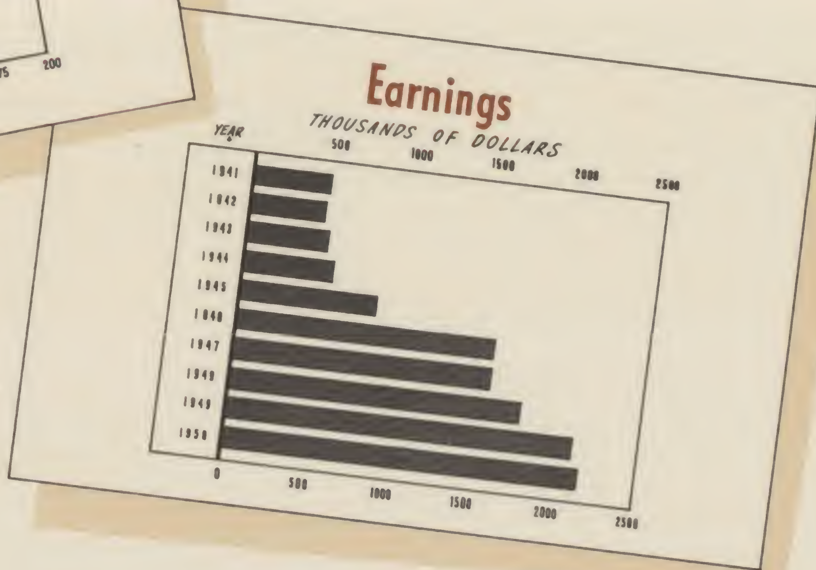
Grand Union has had another record year. Sales for the 53 weeks ended March 3, 1951 reached an all-time peak of $161,007,128, an improvement of 19% over the 52 week fiscal year of 1949, the previous record year. We are pleased to report a net profit, after all taxes, of $2,181,890, compared with 1949 earnings of $2,165,320. Earnings do not show the same percentage of increase as sales due to the rise in corporation income tax rates and imposition of the excess profits tax. It is significant that federal income taxes, including excess profits tax, increased from $1,620,000 in 1949 to $2,225,000 in 1950. These taxes amounted to $3.85 per share. Earnings after taxes on 578,108 outstanding shares of common stock were $3.77 as compared with $3.75 on the same basis in 1949.

Dividends on the common stock were continued at the regular annual rate of $1.00. In addition, at a special meeting on March 13, 1951, the stockholders voted to create a new class of 116,000 shares of 4½% cumulative preferred stock of par value of $50. This was distributed to the holders of the common stock as a special dividend in the ratio of one share of preferred stock for each five shares of common stock held.

Our chain store division, the sales of which represent about 90% of Grand Union's total business, showed encouraging progress throughout the year. Our broad program of expansion continued. You will be interested in reading the detailed report of operations on pages ten and eleven of this report.

The unprecedented price increase in the world coffee market during the past two years has proven a severe handicap to our route division. Consumer resistance to the high price of this commodity, which represents a substantial part of the business, restricted the increase in sales volume and narrowed profit margins in this division.

The Food-O-Mat Corporation, a wholly-owned subsidiary engaged in selling the Food-O-Mat to other companies, has completed its most successful year. General



acceptance of this new grocery-dispensing fixture appears to be spreading into other businesses beyond the grocery field.

You will observe on page six that our balance sheet indicates a substantial increase in inventories over a year ago. This has been necessitated by not only the increase in sales and rise in prices but also the unusual supply and price conditions that have prevailed in recent months. We believe the Company's inventory position at the end of the fiscal year to be entirely satisfactory.

Our expansion program and the increased investment in inventory have created a definite need for additional working capital. Accordingly, an additional loan of $2,500,000, on a favorable basis, has been made. Details will be found in the notes to the financial statements on page eight.

One of the most important steps taken by the Company in many years is the decision made last spring to move the main offices from New York City into new and larger headquarters located in East Paterson, N. J. The architect's drawing appears on the opposite page. These new modern offices have been obtained at an extremely favorable rental cost. In the same building we are installing one of the largest super markets in the East.

A second major step in the Company's progress also has been undertaken this year — the construction of a large addition to the Company's main warehouse at Carlstadt, N. J. Doubling floor space, this addition makes the warehouse outstanding in the food chain industry, in size, modern equipment, and efficient operating layout and facilities.

The year 1951 is one of uncertainties. The government's initial efforts to impose price controls have resulted in inequities for mass food distributors such as Grand Union. We are

unable to absorb for any length of time the increases in costs passed along to us by our suppliers because of our traditional narrow profit margin of one and a half cents or less on each dollar of sales. When and how much relief from the squeeze will be granted remains to be seen. At this writing only about 60% of food products are under price control. Hesitancy by the administration to control the price of livestock and to adjust realistically the farmers' parity laws has seriously impaired the effectiveness of the fight on rising food prices. Price controls in themselves, moreover, cannot halt inflation.

Profits to an increasing extent will depend upon government action on taxes and controls. The progress of our business during the new fiscal year, too, will be contingent upon the course of international events. Should the tense international situation ease or become worse, there must, of course, be a re-appraisal of future prospects and development. We in Grand Union are prepared to take every possible measure to meet conditions as they may develop.

Regardless of uncertainties we have confidence in the continuing progress of the Company in the coming year. The basis of this confidence is the loyalty, hard work, and intelligent effort of some 6,000 Grand Union employees. Also the teamwork of management, directors, and stockholders will continue to be a constructive force in the improvement of the business.

Lansing P. Shield

April 26, 1951

PRESIDENT

Certificate awarded to Grand Union by the American Institute of Management for ranking first in "sales vigour" among 2,000 corporations surveyed during 1950.

Architect's drawing of Grand Union's new headquarters building in East Paterson, N. J., to be completed later this year.

THE GRAND UNION COMPANY

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Mar. 3, 1951	Feb. 25, 1950
WORKING CAPITAL:		
Current assets:		
Cash	$ 4,295,413	$ 3,567,628
United States Government securities	—	1,500,000
Accounts receivable, less allowance for losses: 1951, $101,231; 1950, $123,687	1,245,493	922,480
Inventories at the lower of cost or market:		
Merchandise	14,335,810	9,273,013
Premiums	1,338,000	897,910
	$21,214,716	$16,161,031
Less, Current liabilities:		
Bankers acceptances	$ 799,640	$ 428,853
Accounts payable, accrued expenses, etc.	6,700,012	3,955,901
Provision for federal taxes on income	2,307,008	1,694,571
	$ 9,806,660	$ 6,079,325
WORKING CAPITAL	$11,408,056	$10,081,706
OTHER ASSETS:		
Fixtures and equipment, at cost, less allowance for depreciation: 1951, $2,668,521; 1950, $2,052,417	6,472,324	5,044,841
Warehouse and store properties, etc., at cost, less allowance for depreciation: 1951, $15,924; 1950, $9,438	1,072,049	262,190
Premiums advanced to customers, less allowance for losses: 1951, $182,806; 1950, $156,016	891,842	854,723
Operating and construction supplies	865,502	367,960
Prepaid expenses, etc.	351,767	164,887
Good will	1	1
	$21,061,541	$16,776,308
DEDUCT:		
Notes payable (Note A)	6,000,000	3,500,000
Mortgages payable	164,939	—
Employees' fidelity deposits	190,470	191,255
Reserve for self-insurance	76,316	72,517
NET ASSETS	$14,629,816	$13,012,536
DERIVED FROM:		
Capital stock, $10 par value, authorized 900,000 shares, issued: 1951, 578,721 shares; 1950, 526,190 shares (Note C)	$ 5,787,210	$ 5,261,900
Capital surplus (Note B)	1,342,155	212,738
Earnings retained for use in the business less transfers for stock dividends, etc. (Notes A and C)	7,504,217	7,541,520
	$14,633,582	$13,016,158
Less, Treasury stock at cost: 1951, 613 shares; 1950, 607 shares	3,766	3,622
	$14,629,816	$13,012,536

(The notes on page 8 are an integral part of this statement.)

THE GRAND UNION COMPANY

AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND EARNINGS RETAINED FOR USE IN THE BUSINESS

	Fifty-three Weeks Ended Mar. 3, 1951	*Fifty-two Weeks Ended Feb. 25, 1950*
OUR SALES OF MERCHANDISE TO CUSTOMERS WERE . . .	$161,007,128	$135,002,540
This merchandise cost us	130,176,108	108,629,927
Leaving a gross profit of	$ 30,831,020	$ 26,372,613
OUR OPERATING EXPENSES COMPRISED		
Salaries, commissions and bonuses to employees in our sales departments	$ 15,255,419	$ 13,178,039
Rents for retail outlets	1,405,520	1,217,828
Advertising, delivery and other selling expenses	6,436,530	5,531,534
Administrative and general expenses	1,816,450	1,533,762
Taxes, other than federal taxes on income	996,582	756,651
Contributions under employees' retirement plan	225,000	133,000
Provisions for bad debts and losses on premiums advanced to customers	139,852	128,145
	$ 26,275,353	$ 22,478,959
	$ 4,555,667	$ 3,893,654
OTHER DEDUCTIONS (including interest expense) net, were . . .	148,777	108,334
Leaving income before provision for federal taxes on income . .	4,406,890	3,785,320
WE PROVIDED FOR FEDERAL TAXES ON INCOME (including $225,000 excess profits tax for the period ended March 3, 1951) . . .	2,225,000	1,620,000
LEAVING NET INCOME OF	2,181,890	2,165,320
Earnings retained for use in the business at the beginning of the period were	7,541,520	5,827,492
	9,723,410	7,992,812
We transferred from:		
Appropriated earnings		500,000
Reserve for unredeemed premium tickets		30,735
		8,523,547
From this total we deducted dividends paid:		
In cash	564,466	519,009
In capital stock (Note B)	1,654,727	463,018
Leaving earnings retained for use in the business at end of period (Notes A and C)	$ 7,504,217	$ 7,541,520

(The notes on page 8 are an integral part of this statement.)

NOTES TO FINANCIAL STATEMENTS

A. Notes payable comprise:

$3,500,000 due $250,000 per annum commencing December 1, 1952 and the balance of $1,000,000 on December 1, 1962; interest 3⅜% per annum.

$2,500,000 due $175,000 per annum commencing February 1, 1956 and the balance of $750,000 on February 1, 1966; interest 3% per annum.

Under certain conditions the notes may be prepaid in whole or in part at the option of the Company, with or without a premium, depending upon the circumstances.

The Company has agreed, among other things, that no dividends other than stock dividends shall be paid, if consolidated working capital would thereby be reduced below $8,000,000 and except out of 75 per cent of the net earnings of the Company after August 26, 1950 less certain stock acquisitions. The unrestricted portion of retained earnings of the Company at March 3, 1951 was approximately $500,000.

B. Stock dividends of ten per cent and five per cent were paid to stockholders of record May 8, 1950 and May 9, 1949, respectively. The amounts of $1,654,727 and $463,018 charged to retained earnings are based on the market price of the shares issued on the respective record dates. Of these amounts $1,129,417 and $212,738, respectively, representing the excess of earnings capitalized over the par value of the shares issued, were transferred to capital surplus.

C. On April 13, 1951, the Company distributed a stock dividend of 115,529 shares payable in a newly authorized 4½% Cumulative Preferred Stock, $50 par value. At that time, $5,776,450 was transferred from retained earnings to 4½% Cumulative Preferred Stock account.

D. The Company has 114 leases expiring after February 28, 1954. The minimum annual rentals on such leases aggregate approximately $1,115,000.

E. Costs and expenses include depreciation of $851,235 and $738,289 for the periods ending in 1951 and 1950, respectively.

F. At March 3, 1951, the Company was contingently liable under letters of credit in the approximate total of $102,000.

THOMAS C. BUTLER,
Treasurer

AUDITORS' REPORT

The Grand Union Company,
New York, N. Y.

We have examined the consolidated statement of financial position of THE GRAND UNION COMPANY and its Subsidiaries as of March 3, 1951 and February 25, 1950 and the related consolidated statement of income and earnings retained for use in the business for the fifty-three and fifty-two week periods, respectively, then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of financial position and related statement of income and earnings retained for use in the business present fairly the consolidated financial position of The Grand Union Company and its subsidiaries at March 3, 1951 and February 25, 1950 and the consolidated results of their operations for the respective periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, April 18, 1951.

Lybrand, Ross Bros. & Montgomery

In the Route Division

COFFEE

Makes the Wheels Go Round

In Grand Union's direct-to-the-home service, the route division, there is no single factor that approaches coffee in its influence on the operation and success of the business. Coffee is the driving force which powers the wheels of over 800 delivery trucks over thousands of miles each week.

The salesmen driving these trucks annually distribute 7,000,000 pounds of famous route division blends to over 400,000 families living in 34 states and the District of Columbia. Seventy-nine years in the coffee business have made Grand Union intimately acquainted with the tastes, preferences, and coffee-making habits of the nation, resulting in two of America's top-blended, freshest, most popular coffees—"Flaroma" and "Silver."

JOHN K. DAVENPORT, Vice-President in charge of Route Division

These coffees make fast friends and hold them for the route division. Thousands of families have traded with Grand Union for years, and hundreds of cases are on record covering 40, 50, and even 60 years of continuous service to the same family. For coffee is the one product almost every customer wants every time the salesman calls. As door openers, these top quality coffee blends give the customer the opportunity to see and to select from the wide variety of groceries and premiums which make up the route division line.

Among the more than 200 standard items carried by the friendly Grand Union "coffeemen" are cake and pie mixes, desserts and crackers, peanut butter and preserves, tea and cocoa, macaroni and spaghetti, soap products and household items, cosmetics and toiletries, paper tissues, and many others, all bearing the Grand Union seal of approval for top quality.

The liberal advertising credits given the customer with her coffee and other groceries enable her at no additional cost to choose from hundreds of attractive, nationally-advertised household premiums—silver and dishes, toasters and other electrical appliances, lamps and rugs, blankets and towels, tables and chairs.

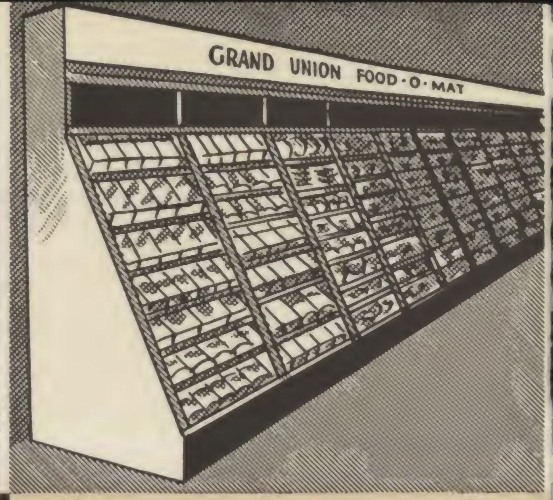
But it is the Grand Union "Flaroma" and "Silver" blends of coffee that make up nearly one-third of the route division's annual volume and a substantial part of each salesman's earnings. Long recognized as an important factor in the nation's economy, coffee plays an equally impressive role in Grand Union's "direct-to-the-customer" operation.

In the route division, it is indeed true that "Coffee Makes the Wheels Go Round!"

Note: The Route Division has prepared a booklet, "The Story of Grand Union Coffee," for distribution to customers. A copy is available upon request.

LATEST LABOR-SAVING TOOLS ARE INSTALLED IN AIR-CONDITIONED MEAT WRAPPING ROOMS.

THE LARGER GRAND UNION MARKETS NOW FEATURE THE HOSPITALITY BAR.



ALL MODERN GRAND UNION SUPER MARKETS FEATURE THE TIME-SAVING FOOD-O-MAT.

Horizons Unlimited

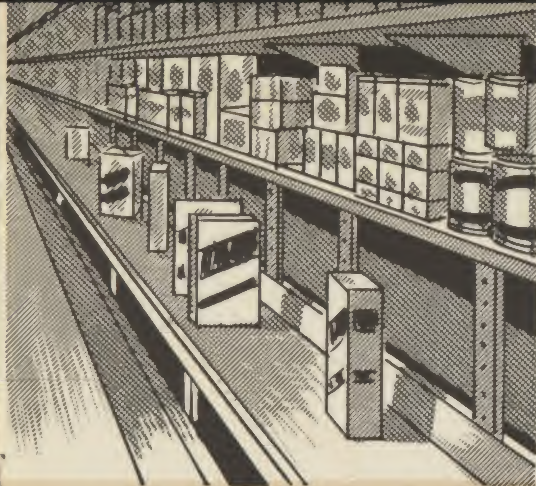
HUGH J. DAVERN, Vice-President in charge of Merchandising

LLOYD W. MOSELEY, Secretary and Personnel Manager

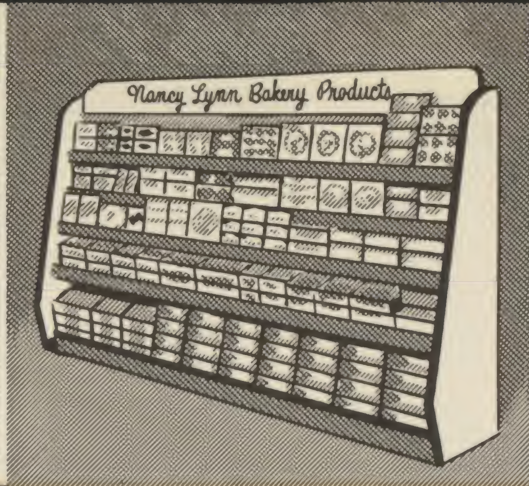
Growth and expansion were the watchwords of the chain store division throughout the record-breaking year of 1950. An unprecedented number of eighteen new super markets were opened, and nine additional large markets were completely renovated and modernized.

Providing government controls permit, it is anticipated that a substantial number of new markets will open on schedule throughout the year. An increasing number of these new stores will be located in suburban shopping centers, with large parking lots an integral part of each location. The most outstanding example of this policy will be the new super market to be located on the ground floor of the Company's new headquarters' building in East Paterson, N. J. This will be one of the largest super markets in the East, and will have parking facilities for more than 1,000 automobiles.

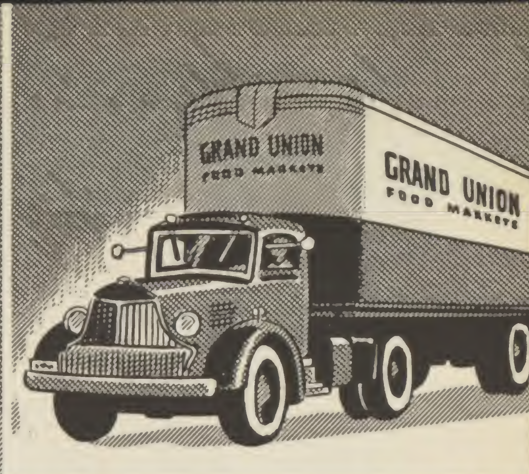
In these new super markets, more and more emphasis is being placed on offering customers wider varieties of merchandise. The housewares, toiletries, frozen foods, and candy departments are constantly being expanded, and the larger markets now feature a dietetic foods department and a hospitality bar. Markets under construction and on the drawing boards will provide still additional departments, all designed to make the housewife's shopping



AN EXPERIMENTAL CONVEYOR BELT SYSTEM USED TO LOAD THE FOOD-O-MAT.



A NEW SELF-SERVICE BAKERY UNIT FEATURING NANCY LYNN QUALITY PRODUCTS.



ONE OF THE NEW TRAILER TRUCKS SERVING GRAND UNION MARKETS.

in the Chain Store Division

trip easier and more pleasant.

Price controls and the resultant squeeze on food retailers' margins have pointed up the increasing importance of cutting expense rates through greater store efficiency. Promising experiments are now being carried out in loading Food-O-Mats through the use of mechanical conveyor belts. New-type check-out booths are being tested. Mechanical equipment in meat-wrapping rooms and in other departments is cutting labor costs. Training programs, both in school and on the job, are bringing about the adoption of better work methods. Through these various ways, the Company is making earnest efforts to increase efficiency and cut expense rates, thus doing its share to keep food costs as low as possible.

In view of the Company's ambitious sales goal of $160,000,000 in 1950, greater emphasis was placed during the year on aggressive sales promotion, particularly through sales meetings for store managers. These were supplemented by a bi-weekly sales newspaper to store personnel. The success of these methods is attested by the sales results.

Grand Union's position as one of the industry's leaders in progressive personnel policies was further strengthened by the liberalizing of the pension plan. Membership jumped from 850 to over 2,000 members. Adjustments have been made in wage scales to help our people meet the increased cost of living. Grand Union's liberal paid holiday and vacation policy, sick pay plan, group insurance, and hospitalization were continued.

GARLAND MILBURN, Vice-President in charge of Store Operations

With new and modernized markets being operated by well-treated employees using more efficient work methods, and with ever-widening varieties of merchandise being aggressively promoted at all times, the chain store division can truly report genuine progress this past year.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